



# FOREIGN POLICY BULLETIN

*An interpretation of current international events by the Research Staff of the Foreign Policy Association*

FOREIGN POLICY ASSOCIATION, Incorporated

22 East 38th Street, New York 16, N. Y.

VOL. XXIII, No. 23

MARCH 24, 1944

## RUSSIA'S CLEAR-CUT POLICY CONTRASTS WITH AMERICAN INDECISION

THE crossing of the Dniester River, announced on March 18, brought Russian troops into Bessarabia, giving added significance to the Kremlin's rapidly unfolding foreign policy, represented in the north by its peace negotiations with Finland and in the south by its recognition of the Badoglio régime.

**FINLAND AT BAY.** While Moscow's peace terms were, on the whole, moderate considering the blows Russia could, if it wished, inflict on Finland at this juncture, and Marshal Mannerheim was reported to have said his forces could not withstand a renewed Russian onslaught, the Finnish government, on March 14, rejected these terms, in spite of pressure from the United States and Sweden. To many people in this country Finland's action may appear foolhardy and unjustified. But from the point of view of many Finns a shift from the domination of Germany to that of Russia offers little perceptible improvement.

Such improvement could have come if Britain, Russia and the United States had implemented their Moscow pledge to establish an international organization "at the earliest possible opportunity." Only within an international organization could Finland, or any other small country, expect adequate guarantees against threats by any one of the great powers. In the continued absence of a system of collective security, American advice to quit the war can hardly prove effective, since the Finns learned by bitter experience during their first war with Russia in 1939-40, when they enjoyed considerable sympathy here and in Western Europe, that they cannot count on concrete assistance from us or from the British—least of all now, when we are fighting side by side with Russia in a common effort to defeat Germany.

**SELF-DETERMINATION QUESTIONED.** In fact, so great is our concern to maintain intact the coalition of great powers that there is a growing tendency to question the right of self-determination

on the part of small nations—in marked contrast to 1919, when that right became one of the cornerstones of the peace settlement. There is no doubt that self-determination, unless it takes place within the framework of an international organization, is bound to result in further pulverization and hence weakening of Europe. The alternative to self-determination, however, is not the absorption of small nations into the territories of great powers, as the London *Times* seems to suggest, but the establishment, as soon as possible, of an international organization within which, as anticipated at the Teheran conference, all countries, great and small, could find a measure of security. Otherwise, just as the Finns are understandably timorous at handing over their fate to the U.S.S.R., so the Russians are understandably anxious, in their hour of victory, to consolidate their strategic position on the Baltic—and prefer their own method of attaining security in the hand to an international system still very much in the bush.

Meanwhile, the Soviet government, which has castigated the Polish government in exile and used unvarnished language to the Finns, appears to be meting out more gentle treatment to the Badoglio régime, which it recognized as the government of Italy on March 11. This decision has been explained by Communists in the United States as an attempt to restore lost morale to the Italians, and thus strengthen them for the selection of their own post-war government. As a matter of fact, there has been relatively little criticism of Badoglio among members of the Italian Committee of National Liberation. Their attacks have been directed not against Badoglio, but against King Victor Emmanuel, and those elements surrounding the monarch who have profited by Allied occupation to use Fascist methods against all political opposition, without benefit of the Fascist label. Britain and the United States at least could have made, had they wished, a distinction between the

King and Badoglio, thus giving some encouragement to those anti-Fascist groups in Italy which have been pleading for the establishment of a regency. Such a measure would even have satisfied Mr. Churchill's expressed preference for the monarchical system without, at the same time, sanctioning the semi-Fascist elements now regrouped around the King. In practice, Anglo-American policy of leaving both the Badoglio régime and the six parties comprising the Italian Committee of Liberation in the dark concerning our future intentions has tended to alienate both, without rallying the Italians to our side.

**RUSSIA'S AIMS IN EUROPE.** The chief weakness of our policy is that, in contrast to the Russians who have a definite objective in mind and use a wide range of methods to attain it, Britain and the United States give the impression of not being certain just what they are striving to achieve on the continent once Hitler has been overthrown. Russia's objective is two-fold: to win the war as soon as humanly possible; and to achieve its own security against the renewal of German aggression. To achieve their own security, the Russians are following two interlocked policies: they are establishing along their western border a safety belt of territories which, in their opinion, could otherwise be utilized by the Germans for some future attack on Russia. Hence their insistence on the incorporation into the U.S.S.R. of Eastern Poland, the Baltic states, Bessarabia and the section of Finland they acquired at the close of the first Russo-Finnish war in 1940. Second, they are seeking by all means at their disposal to make certain that countries adjacent to Russia's 1941 border will, after the war, have governments friendly to the

U.S.S.R. and the Soviet system. Hence their hostility to the Polish government in exile, their backing of the Union of Polish Patriots and the Polish army in Russia headed by Lieut. Gen. Berling, their treaty of mutual assistance with Czechoslovakia and, further afield, their recognition of the Badoglio régime.

Compared to these clear-cut aims, the policy of Britain and the United States in Europe remains unclear. Are we merely striving to assure our own survival—in itself a worthy and obviously essential aim? Or are we also intent on extirpating in Europe the forces that bred Fascism and Nazism, and that, unless they are uprooted, may breed them again once hostilities are over? Naturally, the military commanders in the field must have the first say when the lives of millions are at stake. But this is only a partial answer. Commanders in the field are not functioning in a vacuum. They either have, or if they do not, should have some idea of the general course pursued in world affairs by the governments they serve. To raise these questions is not to weaken the war effort, as some people contend. On the contrary, it could be fairly argued that if the military forces of the United States—whose prevailing lack of conviction has been the subject of recent comment—were more fully aware of the issues at stake, they might make an even more valuable contribution to the war effort. And this applies with still greater force to the civilians behind the lines who can hardly be expected to perform adequately their functions as citizens of a democratic society unless they have a rough idea of the direction in which the government is moving.

VERA MICHELES DEAN

## ANGLO-AMERICAN COOPERATION HINGES ON POST-WAR TRADE POLICIES

The impending conversations in London between an American mission headed by Under Secretary of State Stettinius and a group of British officials led by Foreign Secretary Eden are expected to cover many problems of current interest to the two governments. It has been suggested that the discussions will include not only political issues such as the present situation in Italy but also the problem of economic relations between the United States and Britain. If this proves to be the case currency, shipping and control of raw materials will undoubtedly be explored, but even more important may be discussions on two other foreign trade questions on which agreement is necessary—one of immediate concern and the other with far-reaching post-war implications.

**LEND-LEASE RESTRICTIONS ON EXPORTS.** The first problem, involving a revision of the British White Paper of September 10, 1941, has arisen as a result of the recent increase in reverse lend-lease aid from Britain. The White Paper was a unilateral declaration of policy by which the British

government guaranteed not to permit the re-export of lend-lease goods or similar goods in short supply in the United States except where considerations of war supply made it necessary. According to a joint statement issued on March 18 by Secretary of State Hull and Foreign Economic Administrator Crowley, this policy has been conducted successfully over the past two and a half years. But with the expansion of reverse lend-lease from Britain to include raw materials, the British government quite naturally asked that an agreement be reached whereby future restrictions such as those in the White Paper be applied equally to American exporters. Although negotiations to this end were begun several months ago, an understanding has not as yet been reached.

Apparently the desire of exporters on both sides of the Atlantic to improve their competitive position has delayed the negotiations. But the fears expressed in this country that such an agreement would benefit British export trade at the expense of the United States seem to have no more justification than earlier

charges that lend-lease was giving Britain an unfair advantage in world markets. United States cash exports reached a value of approximately \$3,150,000,000 in 1942, compared with an average of \$3,000,000,000 for the period 1936-38, and in 1943 totaled approximately \$2,774,181,000, or a drop of only 7½ per cent below 1936-38 levels. British exports on the other hand—owing almost entirely to shortage of labor and supply rather than to the White Paper restrictions—were drastically reduced during 1942-43, probably by as much as 50 per cent from the 1936-38 average. In the Middle East, for example, where British exports were roughly three times greater than American before the war, the volume of United States cash exports is now much larger than the British. In view of these facts it seems probable that American export trade has not suffered, except in relatively minor instances, by irregularities in the White Paper procedure, and there appears to be no reason why an agreement should not be reached which would make restrictions equally applicable to American exporters.

**THE COMMERCIAL POLICY ISSUE.** The problem of reconciling American and British post-war commercial policies, however, will be of much more vital importance. True, the basic principles for a solution of this problem were laid down in Article VII of the Master Lend-Lease Agreements of February 23, 1942, in which the United States and Britain agreed to seek joint action looking toward the removal of discriminatory treatment in international commerce and the reduction of tariffs and other trade barriers. On the American side, it is clear that the Administration strongly supports the restoration and expansion of international trade and finance on a multilateral basis and would like to use Article VII as the vehicle for establishing an international trade agreement or convention to which all the United Nations would adhere. But if general acceptance of Ar-

ticle VII is to be achieved, the United States will have to make substantial reductions in its own tariff, and probably remove its preferential arrangements with the Philippines, the Virgin Islands and Cuba. So long as our allies feel uncertain that this will be done, they are unlikely to commit themselves to remove exchange controls and bilateral or preferential trading arrangements.

In London there is also support for the restoration of multilateral trade, but with certain reservations. As a result of the war Britain, which previously paid for over a third of its imports with income derived from foreign investments and shipping, will have a deficit—of probably £200,000,000—in its balance of payments which can be filled only by an export expansion of roughly 40 or 50 per cent. In facing this prospect the British government has apparently felt that immediate achievement of multilateralism would be impossible, but that if sufficient liquid reserves for the transition period could be provided by an international clearing union or fund the bilateral and preferential arrangements used in the 'thirties and during the war could be gradually removed.

In taking this position, however, the government is far ahead of the bilateral thinking of many British manufacturers, and the recent series of articles on foreign trade in *The Economist*, Britain's leading economic journal, suggests that opposition will be met from that quarter also. For *The Economist*, after admitting the merits of "omnilateralism," argues that it cannot be achieved, contending that the only possible solution for Britain is a form of closely controlled regional multilateralism.

Although this position is not accepted by the government, the difficulties of the transition period may make it impossible for Britain to give full and immediate support to multilateralism. If this is the case, and Britain is permitted certain deviations from the multilateral principle while making post-war adjustments, the question still remains whether it will then be possible for the Administration to obtain support for its program from Congress, which will probably be reluctant under any circumstances to make the essential tariff reductions. Until the central issue of commercial policy is solved, related questions such as currency, shipping, oil, rubber and free access to raw materials in general, will not be readily adjusted, and Anglo-American economic collaboration will have no solid basis for the post-war period.

HOWARD P. WHIDDEN, JR.

**What effect will the United States attitude toward the tariff, shipping, rubber, foreign lending and lend-lease have in influencing Britain's post-war trade policy? READ—**

### **BRITAIN'S POST-WAR TRADE AND WORLD ECONOMY**

by Howard P. Whidden, Jr.

**25c**

December 15 issue of FOREIGN POLICY REPORTS  
REPORTS are issued on the 1st and 15th of each month.

Subscription \$5; to F.P.A. members, \$3.

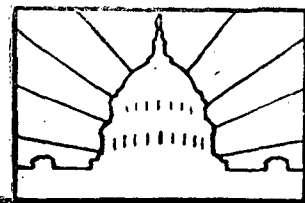
FOREIGN POLICY BULLETIN. Vol. XXIII, No. 23, MARCH 24, 1944. Published weekly by the Foreign Policy Association, Incorporated. National Headquarters, 22 East 38th Street, New York 16, N. Y. FRANK ROSS MCCOY, *President*; DOROTHY F. LEBT, *Secretary*; VERA MICHAELS DEAN, *Editor*. Entered as second-class matter December 2, 1921, at the Post Office at New York, N. Y., under the Act of March 3, 1879. Three Dollars a Year. Please allow at least one month for change of address on membership publications.

**F. P. A. Membership (which includes the Bulletin), Five Dollars a Year**

*Produced under union conditions and composed and printed by union labor.*



# Washington News Letter



MARCH 20.—Treasury Secretary Henry Morgenthau, Jr., late last March invited finance ministers of the United Nations governments to send their monetary experts to Washington for exploratory technical discussions on how to stabilize the world's currencies. These preliminary talks recently came to a close, and the United States government tentatively expects to be host to a world monetary conference some time this summer. The need for universal currency stabilization challenges the governments to discover a formula for multilateral economic cooperation because, as the preamble to the United States' proposal for an international stabilization fund of the United and Associated Nations says, "world prosperity, like world peace, is indivisible."

**CURRENCY TALKS UNDER WAY.** Three proposals have furnished the bases for the preliminary talks. They are the United States Stabilization Fund plan, made public on April 7, 1943 and revised on July 10, 1943; the plan for an international clearing union, made public by the British government on April 8, 1943; and the Canadian government's proposal for an international exchange union. On November 24, 1943 the United States also published a preliminary draft outline of a proposal for a bank for reconstruction and development of the United and Associated Nations. Its purpose—to encourage the flow of private investment capital to war-stricken countries—is in keeping with the general goal of stabilization, which is to secure economic advancement for all.

The specific objectives of the advocates of currency stabilization are to help stabilize the foreign exchange rates of the currencies of the member countries, and to help create conditions under which the smooth flow of foreign trade and productive capital will be fostered. Such a program would liberate trade from the dangerous confinement of bilateral controls, special clearing arrangements, multiple currency devices and discriminatory foreign exchange and currency restrictions which dominated world commerce during the 1930's and contributed to the outbreak of World War II.

The British plan states "there is a growing measure of agreement about the general character of any solution of the problem likely to be successful." There are still disagreements, however, on details.

The revised American plan proposes a fund of \$5,000,000,000 whereas the Canadian plan proposes

\$8,000,000,000. The American plan would limit credits from the fund for an individual member to the amount of its contribution to the fund, whereas the British would effect "the substitution of an expansionist, in place of a contractionist, pressure on world trade" by "allowing to each member state overdraft facilities of a defined amount." The American plan would require each member to pay at least 30 per cent of its quota of the fund in gold, whereas the British plan, not prescribing the nature of the payment medium, says that "we need a quantum of international currency which is neither determined in an unpredictable and irrelevant manner as, for example, by the technical progress of the gold industry, nor subject to large variations depending on the gold reserve policies of individual countries." Both the American and British plans, nevertheless, would fix the value of the fund's monetary unit in terms of gold. The Soviet government, whose monetary representatives only recently concluded their technical discussions here, is said to favor the use of gold in the establishment of the fund.

**WHY LONDON CONFERENCE FAILED.** The last attempt to agree upon world-wide stabilization, through the London Economic Conference of 1933, failed chiefly because individual governments, especially that of the United States, took the view that domestic monetary questions and domestic political interests should be satisfied before the international questions were dealt with. The lesson of the past eleven years suggests that in the long run unsolved international problems are bound to affect the domestic situation of each nation.

To pave the way for domestic acceptance of American participation in a world currency stabilization fund, Mr. Morgenthau has kept the appropriate House and Senate committees informed of the preliminary discussions. Officers and directors of various Federal Reserve Banks have examined stabilization proposals at their conferences; and Treasury officials have conferred on the matter with the Advisory Council of the American Bankers' Association, the Foreign Trade Council and other organizations. Membership in the fund would require no greater surrender of sovereignty than a commercial treaty, according to the authors of the British plan, who foresee that the fund "might become the pivot of the future economic government of the world," other desirable collaborative arrangements being aided and supported by its existence. **BLAIR BOLLES**

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